

March 1, 2018

Postal Regulatory Commission  
901 New York Ave NW, Suite 200  
Washington DC 20268

Dear Commissioners,

On behalf of our client LSC Communications, Venable LLP respectfully submits these Comments, provided below as Attachment A, on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, Docket No. RM2017-3.

Respectfully submitted,

*/s/ Matthew D. Field*

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## Attachment A



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901 New York Ave NW, Suite 200  
Washington DC 20268

**Re: 10-Year Rate System Review Docket Number RM2017-3**

Dear Commissioners:

LSC Communications appreciates the opportunity to provide you with comments on the rate scheme you have proposed as a result of your 10-year review of the CPI-based annual price cap established under the Postal Accountability and Enhancement Act (PAEA).

### **LSC Communications and Our Clients**

LSC Communications, with over 20,000 employees, is a leader in traditional and digital print and mail-related services that serve the needs of publishers, merchandisers, retailers and other organizations. Our clients, which include the very largest of catalog mailers and magazine publishers, have depended historically on the Postal Service for the distribution of their catalogs and publications to consumers throughout the United States. LSC operates in a highly competitive environment in which price and quality of service are critical factors in our clients' decision-making processes. As technological advances have occurred, especially in the development of digital media, LSC has taken a number of major initiatives including the closing of certain facilities and replacement of outmoded technology and other cost reduction measures in order to be able to continue to meet the needs of our clients. We have undertaken these initiatives primarily to serve our own business interests and objectives, but some of these initiatives, particularly enhancements we have made to our co-mail, commingling and co-palletization capabilities, have benefitted the Postal Service as well.

### **Undercuts the Objective of a Financially Stable and Efficient Postal Delivery System**

Unfortunately, the proposal advanced by the Commission would virtually release the Postal Service from any regulatory price constraint and thereby threaten to undercut the objective of a financially stable and efficient postal delivery system that the PAEA was intended to create. This rate proposal gives the U.S. Postal Service use-it-or-lose-it authority to raise rates by 2% above the CPI for each market-dominant rate class for five years, with another 1% allowed for adhering to very modest service standards and meeting yet-to-be-defined operational standards.

### **Accelerating Migration to Digital and Alternate Delivery Methods**

By the Postal Regulatory Commission's (PRC) conservative estimates, which assume a 2% CPI, this proposal would raise First-Class single piece, presort and Marketing Mail letters by more than 27% and Periodicals and Marketing Mail flats by more than 40% over five years. As we talk to our clients, who use the mail for marketing communications and commerce, these proposed increases have already prompted them to consider, or even start reducing publishing frequency

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and/or volume, accelerating their migration to digital and alternate delivery methods. The PRC proposal will continue to increase the cost of customer acquisition – which is already higher in mail than in other channels - for entities such as catalog mailers that have traditionally relied on the Postal Service for communicating with present customers and prospects.

### **Full Picture of the Mail Supply Chain**

The Commission does not seem to be fully conversant with the full extent of the transformation of the mail supply chain that has taken place on an accelerated basis in the past 10 years:

- **Industry has Reduced Costs, Postal Service has Shifted Costs**

Rate increases by the Postal Service have been moderated by automation incentive programs such as co-mail, commingling and co-palletization discounts. Most mail and print service providers, and logistics and transportation companies have made prudent capital investments over the last few years to reduce costs. The Postal Service has encouraged mail and print service providers to automate and invest in new equipment and processes and work with other service providers in the mail supply chain, such as software providers, consolidators, logistics, and transportation companies, to streamline workflows and add mail preparation capabilities. The majority of the commercial mail received by the USPS is optimized for efficient processing within their network and facilities. This set of incentive programs has not been matched by the Postal Service itself which has not taken any significant measures to reduce its costs; instead, with the Commission's approval, it has shifted costs from the Postal Service to service providers and their clients. The inevitable result is a loss of mail volume because there is a limit to what LSC and its competitors can do through innovation to offset the costs incurred by the Postal Service. Staggering increases of the types that are contemplated by the Commission will only result in accelerated migration by both catalog companies and magazine publishers to digital delivery. Accelerated declines in mail volume will result in the underutilization of processing capacity on both the industry and postal sides, to the financial detriment of all parties and to the disservice of the American Public, especially consumers in rural and less populated areas.

- **Total Combined Cost**

The cost containment efforts of mail and print service providers have helped to mitigate Postal Service rate increases experienced by mail owners. But it is a mistake to assume, as the Commission apparently does, that cost containment is the responsibility of the private sector and that giving the Postal Service increases entirely disconnected from market conditions will solve the issues the Postal Service faces. Mailpiece manufacturing costs have decreased while postal costs have increased to now become the largest portion of the total expense per mailpiece. In addition, freight costs are projected to increase with major capacity issues, paper prices are anticipated to increase, and ink suppliers announced increases in January 2018. While some of these cost drivers are not within the



purview of the Commission, rate increases of the type proposed will further the erosion of the Postal Service's role in the communications chain. At the least, the PRC should be mindful of the "total combined cost" of a mailpiece. Continuing the ever increasing postal cost will harm the stability of the mail supply chain.

### **Proposed System will Lead Postal Service to Neglect Efficiency and Cost Controls**

Under the current system, the capping of postage rate increases at CPI has provided a necessary incentive for the Postal Service to reduce costs, improve efficiencies and negotiate with its employee unions in creative ways. To be sure the system has not worked perfectly as the experience with FSS has shown. The proposed system will not work at all. The price increases permitted under the proposed system will lead the Postal Service to neglect efficiency and cost controls. The requirement that increases in the rates for market dominant products be no more than the rate of inflation (CPI-U) has provided a level of predictability and stability for businesses and nonprofit organizations, and should be maintained.

### **Jeopardizes Long Term Stability of the Postal Service**

As we have shown, postage is a significant component of many of our customers' cost structure and postal rate changes can influence the number of pieces and types of materials that our customers mail. The current system adopted under the PAEA understood this reality and balanced the interests of the Postal Service, a regulated monopoly, with its captive ratepayers. The proposed system does not, and in doing so, jeopardizes the long term stability of the industry, including the financial stability of the Postal Service, by driving volume away from mail.

The proposal is not in the best interest of the Postal Service nor the mail supply chain as a whole. What harms the mail supply chain also harms the Postal Service's source of revenue in this channel. Furthermore, the current CPI cap system incentivizes the Postal Service to reduce costs and increase efficiency, the first objective of the rate cap established by Congress. As economists expect inflation to rise, now is not the time to reduce the incentives for the Postal Service to become leaner and more efficient.

### **Congressional Action to Eliminate Nonsensical Requirement**

Finally, these massive rate increases are completely unnecessary. Of the Postal Service's accumulated \$59.1 billion loss, \$54.8 billion was due solely to the requirement that it prefund its financially healthy retiree health plan. Congressional action to eliminate this nonsensical requirement is what is needed, not excessive rate increases that are likely to have the counterproductive effect of crippling the print and mail industry. Eliminating the \$54.8 billion from the shortfall being addressed should result in considerably moderated increases.

For these reasons, we urge you to at the least moderate your proposed rate system allowing for virtually unchecked rate increases, add your voice to call for congressional action, and focus on understanding and managing the costs within the Postal Service. The proposed accelerated price increases would do fundamental and long-lasting harm to the entire mail supply chain and the viability of mail as a central channel of communication and commerce.



We continue to believe that imposing rate increases higher than the rate of inflation will cause undue harm to the entire mailing community and that the current rate setting process and procedures should remain unchanged. As you deliberate your next course of action, please consider supporting our position. Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Thomas J. Quinlan'.

Thomas J. Quinlan  
Chairman and Chief Executive Officer